

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Tuscola County Road Commission	County Tuscola
Fiscal Year End 12/31/06	Opinion Date 4/20/07	Date Audit Report Submitted to State 5/21/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tuckey, Bernhardt & Doran, P.C.		Telephone Number 989-673-3137		
Street Address 715 E. Frank St.		City Caro	State MI	Zip 48723
Authorizing CPA Signature Jerry J. Bernhardt, CPA.		Printed Name Jerry Bernhardt		License Number 1101008281

TUSCOLA COUNTY ROAD COMMISSION

Caro, Michigan

Report on Financial Statements
(with required supplementary and
additional information)

December 31, 2006

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April 20, 2007

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Tuscola County Road Commission
Caro, Michigan 48723

We have audited the accompanying financial statements of the Tuscola County Road Commission, Caro, Michigan, a component unit of the County of Tuscola, as of and for the year ended December 31, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Tuscola County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Tuscola County Road Commission, Caro, Michigan, as of December 31, 2006, and for the year then ended in conformity with generally accepted accounting principles.

The management's discussion and analysis on pages I through VII and budgetary comparison information on pages 18 & 19 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tuscola County Road Commissions' basic financial statements. The additional information on pages 20 through 28 is presented for the purposes of additional information and has been subjected to the auditing procedures

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**TUSCOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION & ANALYSIS
Year Ending December 31, 2006**

Using this Annual Report

The Tuscola County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the Road Commission's financial activity; (c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and the changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the Road Commission's major fund begins on page 2. The fund financial statements begin on page 3 and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental fund type.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services.

We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased by 7.74% from \$64,293,286 to \$69,271,127 for the year ended December 31, 2006. The net assets and change in net assets are summarized below.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased \$4,686,394. Restricted net assets, those restricted mainly for Act 51 purposes, increased \$291,447. The primary reason for the increase in unrestricted net assets was an increase of the Road Commission's Capital Assets by 7.63% for the year 2006 compared to 2005.

Net assets as of year ended December 31, 2006 follows:

	2006	2005	Variance	%
Current and Other Assets	\$ 4,986,822	\$ 4,481,792	\$ 505,030	11%
Capital Assets	66,154,196	61,466,829	4,687,367	8%
Total Assets	<u>\$ 71,141,018</u>	<u>\$ 65,948,621</u>	<u>\$ 5,192,397</u>	8%
Long-Term Debt Outstanding	50,000	100,000	(50,000)	-50%
Other Liabilities	1,819,891	1,555,335	264,556	17%
Total Liabilities	<u>1,869,891</u>	<u>1,655,335</u>	<u>214,556</u>	13%
Net Assets				
Invested in Capital Assets				
Net of Debt	66,104,196	61,366,829	4,737,367	8%
Restricted	1,092,546	801,099	291,447	36%
Unrestricted	2,074,385	2,125,358	(50,973)	-2%
Total Net Assets	<u>69,271,127</u>	<u>64,293,286</u>	<u>4,977,841</u>	8%
Total Net Assets & Liabilities	<u>\$ 71,141,018</u>	<u>\$ 65,948,621</u>	<u>\$ 5,192,397</u>	

A summary of changes in net assets for the year ended December 31, 2006 follows:

	Governmental Activities 2006	Governmental Activities 2005	Favorable (Unfavorable) Variance	Variance %
Program Revenue:				
Federal Grants	\$2,074,286	\$ 141,666	\$ 1,932,620	1364%
State Grants	6,947,444	7,137,419	(189,975)	-3%
Contributions From Local Units	2,513,288	2,011,264	502,024	25%
Investment Earnings	42,801	35,199	7,602	22%
General Revenue:				
Taxes	1,487,517	1,392,088	95,429	7%
Miscellaneous	4,594	-	4,594	100%
Salvage Sales	9,396	10,064	(668)	-7%
Gain on Equipment Disposal	60,105	11,650	48,455	416%
TOTAL REVENUES	\$13,139,431	10,739,350	2,400,081	22%
Program Expenses:				
Primary Road Maintenance	870,178	1,256,299	(386,121)	-31%
Local Road Maintenance	2,295,932	2,489,084	(193,152)	-8%
State Trunkline Expense	1,007,555	1,404,504	(396,949)	-28%
Net Equipment Expense	3,414,385	2,661,660	752,725	28%
Net Administrative Expense	573,540	565,901	7,639	1%
TOTAL EXPENDITURES	8,161,590	8,377,448	(215,858)	-3%
Increase (Decrease) in Net Assets	\$4,977,841	\$ 2,361,902	\$ 2,615,939	111%

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2006, the fund balance of the General Operations Fund increased \$140,050 as compared to a decrease of \$793,735 in the fund balance for the year ended December 31, 2005. Total revenues were \$13,039,483, an increase of \$2,369,014 as compared to last year. This change in revenues resulted mainly from an increase in Federal Aid funded projects.

Total expenditures were \$12,899,433, an increase of \$1,435,229 as compared to last year. Increased expenses included expenses associated with Federal Aid funded projects.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was completed.

The final revenue budget for 2006 was lower than the original budget by \$2,517,200. This was due to Federal Aid projects that were first anticipated being funded in 2006. These projects included the Dodge Road Federal Aid Project and the Chambers Road Bridge Project. The funding for these projects should be completed in 2007.

Road Commission final expenditures budget for 2006 was also lower than the original budget by \$2,988,950. This was due to the lower expense as related to the Federal Aid funding projects originally planned for 2006. As with the revenue, these expenses should be incurred during year 2007.

	2006 Original Budget	2006 Final Budget
Revenues:		
Motor Vehicle Highway Funds	\$5,800,000	\$5,600,000
State Trunkline Revenue	1,100,000	1,200,000
Federal/State Funds:		
Snow Emergency Funds	-	-
Primary Roads	1,979,600	1,557,000
Local Roads	2,045,600	707,200
Primary Roads Bridges	1,000,000	-
Local Roads Bridges	571,000	300,000
County Raised Funds:		
Primary Road Millage	870,000	900,000
Local Road Bridge Millage	450,000	450,000
Township Contributions	1,900,000	2,500,000
Other Contributions	-	-
Other Revenues:		
Interest Earned	30,000	30,000
Equipment Rentals	2,200,000	2,200,000
Gain (Loss) on Disposal of Equipment	96,200	71,000
Depreciation & Depletion Credits	400,000	400,000
Equipment Retirements	5,000	10,000
Salvage Sales	5,000	10,000
TOTAL REVENUES	18,452,400	15,935,200
Expenditures:		
Primary Roads Construction	-	-
Primary Roads Heavy Maintenance	3,927,200	3,423,000
Primary Roads Routine Maintenance	1,190,000	1,063,000
Local Roads Construction	-	-
Local Roads Heavy Maintenance	4,400,000	3,700,000
Local Roads Routine Maintenance	2,345,000	2,298,000
Primary Structures Heavy Maintenance	1,514,000	168,500
Primary Structures Routine Maintenance	1,000	1,000
Local Structures Heavy Maintenance	1,031,000	709,050
Local Structures Routine Maintenance	1,000	3,000
State Trunkline Expense	1,100,000	1,200,000
Equipment Expense-Direct	1,100,000	1,200,000
Equipment Expense-Indirect	700,000	600,000
Equipment Expense-Operating	400,000	400,000
Administrative Expense	510,000	600,000
Capital Outlay	409,000	273,700
MDOT - Audit Adjustment	-	-
TOTAL EXPENDITURES	18,628,200	15,639,250

Capital Assets

As of December 31, 2006, the Road Commission had \$105,067,503 invested in capital assets as follows:

Capital Assets Not Being Depreciated:	2006	2005	Variance
Land and Land Improvements	\$25,771,355	24,086,874	1,684,481
Other Capital Assets:			
Depletable Assets	282,717	282,718	(1)
Buildings	2,308,183	2,245,764	62,419
Bridges	19,452,389	18,585,697	866,692
Roads	52,220,360	46,704,745	5,515,615
Signals & Guardrails	317,406	288,245	29,161
Road Equipment	4,167,924	4,760,261	(592,337)
Shop Equipment	145,559	142,530	3,029
Engineers Equipment	56,775	54,090	2,685
Office Equipment and Furniture	344,835	344,185	650
Total Capital Assets at Historic Cost	105,067,503	97,495,109	7,572,394
Total Accumulated Depreciation	38,913,307	36,028,280	2,885,027

Current year's major additions included the following:

Trucks/Equipment	\$ 585,973
Buildings	62,419
Roads	5,515,615
Bridges	866,692
Land improvements	1,684,481
Signals & guardrails	29,161

Debt

The Road Commission currently experiences a relatively debt free status. In 2004, a gravel pit was purchased for approximately \$200,000. An installment purchase agreement was executed with a current balance of \$50,000.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2007 budget. One of the factors was Federal Aid funding. Federal Aid funding will include such projects as 4 miles of Dodge Road, 5 miles of Saginaw Road with paved bike paths, and the Chambers Road Bridge.

The Board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Tuscola County's transportation system. Therefore, the Board attempts to spend the public's money wisely and equitably, and in the best interest of the motoring public and the citizens of Tuscola County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Tuscola County Road Commission administrative offices at (989) 673-2128.

BASIC FINANCIAL STATEMENTS

TUSCOLA COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS

	<u>GOVERNMENTAL ACTIVITIES</u>	
	DECEMBER 31,	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash & cash equivalents	\$ 139,696	\$ 1,056,142
Accounts receivable	1,784,532	696,430
Inventory	361,043	334,395
Prepaid insurance	99,377	121,045
Deferred expense	9,957	72,958
Capital assets	105,067,503	97,495,109
Less accumulated depreciation	(38,913,307)	(36,028,280)
Restricted assets:		
Cash & cash equivalents	1,092,546	801,099
Taxes receivable	1,499,671	1,399,723
TOTAL ASSETS	<u>\$ 71,141,018</u>	<u>\$ 65,948,621</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	\$ 1,474,060	\$ 1,232,707
Accrued liabilities	84,426	89,197
Township advances	27,882	257
Advance - State of Michigan	218,787	217,962
Land contract payable	50,000	50,000
Noncurrent Liabilities:		
Land contract payable	-	50,000
Accrued sick pay	14,736	15,212
Total Liabilities	<u>1,869,891</u>	<u>1,655,335</u>
<u>NET ASSETS</u>		
Investment in capital fixed assets		
net of related debt	66,154,196	61,366,829
Designated for bridge/road construction	1,092,546	801,099
Undesignated	2,024,385	2,125,358
Total Net Assets	<u>69,271,127</u>	<u>64,293,286</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 71,141,018</u>	<u>\$ 65,948,621</u>

The accompanying notes are an integral part of the financial statements.

TUSCOLA COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES

	DECEMBER 31,	
	2006	2005
Program Expenses		
Primary Road Maintenance	\$ 870,178	\$ 1,256,299
Local Road Maintenance	2,295,932	2,489,084
State Trunkline	1,007,555	1,404,504
Net Equipment Expense	3,414,385	2,661,660
Net Administrative Expense	573,540	565,901
	<u>8,161,590</u>	<u>8,377,448</u>
Total Program Expenses		
Program Revenue		
Federal Grants	2,074,286	141,666
State Grants	6,947,444	7,137,419
Contributions From Local Units	2,513,288	2,011,264
Investment Earnings	42,801	35,199
	<u>11,577,819</u>	<u>9,325,548</u>
Total Program Revenue		
Net Program Revenue	<u>3,416,229</u>	<u>948,100</u>
General Revenue		
Property Taxes	1,487,517	1,392,088
Miscellaneous	4,594	-
Salvage Sales	9,396	10,064
Gain on Equipment Disposal	60,105	11,650
	<u>1,561,612</u>	<u>1,413,802</u>
Total General Revenue		
Change in Net Assets	4,977,841	2,361,902
Net Assets Beginning of Year	<u>64,293,286</u>	<u>61,931,384</u>
Net Assets End of Year	<u><u>\$ 69,271,127</u></u>	<u><u>\$ 64,293,286</u></u>

The accompanying notes are an integral part of the financial statements.

**TUSCOLA COUNTY ROAD COMMISSION
BALANCE SHEET**

GOVERNMENTAL FUND TYPE		
GENERAL OPERATING FUND		
	DECEMBER 31,	
	2006	2005
<u>ASSETS</u>		
Cash & cash equivalents	\$ 139,696	\$ 1,056,142
Accounts receivable	1,784,532	696,430
Inventory	361,043	334,395
Prepaid insurance	99,377	121,045
Deferred expense	9,957	72,958
Restricted assets:		
Cash & cash equivalents	1,092,546	801,099
Taxes receivable	1,499,671	1,399,723
TOTAL ASSETS	<u>\$ 4,986,822</u>	<u>\$ 4,481,792</u>
<u>LIABILITIES & FUND EQUITY</u>		
Liabilities:		
Accounts payable	\$ 1,474,060	\$ 1,232,707
Accrued liabilities	84,426	89,197
Township advances	27,882	257
Advance - State of Michigan	218,787	217,962
Payable from restricted assets:		
Deferred revenue	1,499,671	1,399,723
Total Liabilities	<u>3,304,826</u>	<u>2,939,846</u>
Fund Equity:		
Investment in general fixed assets		
Fund balance:		
Designated for bridge/road construction	1,092,546	801,099
Undesignated	589,450	740,847
Total Fund Equity	<u>1,681,996</u>	<u>1,541,946</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 4,986,822</u>	<u>\$ 4,481,792</u>

The accompanying notes are an integral part of the financial statements.

TUSCOLA COUNTY ROAD COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS

	DECEMBER 31,	
	2006	2005
Total Fund Balances - Governmental Funds	\$ 1,681,996	\$ 1,541,946
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is:	105,067,503	97,495,109
Accumulated depreciation is:	(38,913,307)	(36,028,280)
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Deferred revenue	1,499,671	1,399,723
Land contract payable	-	(100,000)
Sick pay payable	(14,736)	(15,212)
Net Assets of Governmental Activities	<u><u>\$ 69,321,127</u></u>	<u><u>\$ 64,293,286</u></u>

The accompanying notes are an integral part of the financial statements.

TUSCOLA COUNTY ROAD COMMISSION
COMBINED STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGE IN FUND BALANCE
GENERAL OPERATING FUND

	GENERAL OPERATING FUND	
	YEAR ENDED DECEMBER 31,	
	2006	2005
REVENUE:		
State Funds:		
Motor vehicle highway funds	\$ 5,617,302	\$ 5,732,308
State trunkline revenue	1,007,555	1,375,061
State aid	322,587	30,050
Federal funds:		
Secondary	2,074,286	141,666
County raised funds:		
Township contributions	2,513,288	2,011,264
Other contributions	-	-
Property taxes	1,387,569	1,323,207
Other revenue:		
Miscellaneous	4,594	-
Interest earned	42,801	35,199
Salvage sales	9,396	10,064
Gain (loss) Equipment Disposal	60,105	11,650
TOTAL REVENUE	13,039,483	10,670,469
EXPENDITURES:		
Primary heavy maintenance	3,200,044	2,177,960
Primary routine maintenance	872,416	1,238,812
Local heavy maintenance	4,029,212	3,093,845
Local routine maintenance	2,289,888	2,430,188
Primary structures heavy maintenance	144,282	31,041
Primary structures routine maintenance	762	17,488
Local structures heavy maintenance	722,410	117,420
Local structures routine maintenance	3,044	58,896
State trunkline maintenance and non-maintenance	1,007,555	1,404,504
Equipment expense - net	308,464	(190,860)
Administrative expense	574,016	571,656
Capital outlay - net	(252,660)	513,254
TOTAL EXPENDITURES	12,899,433	11,464,204
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	140,050	(793,735)
FUND BALANCE - JANUARY 1	1,541,946	2,335,681
FUND BALANCE - DECEMBER 31	\$ 1,681,996	\$ 1,541,946

The accompanying notes are an integral part of the financial statements.

TUSCOLA COUNTY ROAD COMMISSION
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES

	DECEMBER 31,	
	2006	2005
Total net change in fund balances--governmental funds	\$ 140,050	\$ (793,735)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities:		
Equipment retirements	(10,965)	(10,550)
Depreciation	(3,634,972)	(3,213,432)
Infrastructure	8,095,948	5,420,267
Capital outlay	237,356	834,716
Loan proceeds provide current financial resources to governmental funds, but entering into loan agreements increases long-term liabilities in the statement of Net Assets. Repayment on notes payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of Net Assets.		
	50,000	50,000
Net increase in accrued revenue - Property Tax		
Beginning of Year	1,499,671	1,399,723
End of Year	(1,399,723)	(1,330,842)
Sick pay is reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:		
Sick pay payable at the beginning of the year	15,212	20,967
Sick pay payable at the end of the year	(14,736)	(15,212)
Change in net assets of governmental activities	\$ 4,977,841	\$ 2,361,902

The accompanying notes are an integral part of the financial statements.

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Tuscola County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Tuscola County Road Commission.

Effective January 1, 2003, the Road Commission implemented the provisions of GASB Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain significant changes in the statements include the following:

A management Discussion and Analysis (MD&A) section providing an analysis of the Road Commission's overall financial position and results of operations has been included in the financial statements.

Financial statements prepared using full accrual accounting for all of the Road Commission's activities, including infrastructure (roads, bridges, etc.).

A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

REPORTING ENTITY:

The Tuscola County Road Commission, established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Tuscola County Road Commission, a discretely presented component unit of Tuscola County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Tuscola County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (Continued):

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

CASH, CASH EQUIVALENTS AND INVESTMENTS:

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are recorded at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value. The Tuscola County Road Commission had no investments at December 31, 2006.

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

PROPERTY TAXES:

The Road Commission portion of the County property tax is levied each December 1, on the taxable value of property located in the County as of the preceding December 31. Assessed values are established annually by the County and are equalized by the State at 50% of approximated current market value. Real and personal property in Tuscola County for the 2005 levy had a State equalized valuation of \$1,713,874,657 and a taxable value of \$1,269,585,053.

In the government-wide financial statements, the property taxes receivable is recorded as revenue when the tax is levied in the current year.

Although the county's 2006 ad valorem tax is levied and collectible on December 1, 2006, it is the Road Commission's policy to recognize revenues from the current tax levy in the subsequent year. The proceeds of this levy are budgeted and made available for the financing of the Road Commission's operations in the governmental fund financial statements in the year collected. The Road Commission's property tax rates for the 2005 levy were .4745 mills for voted bridges and .9537 mills for voted Primary Road.

INVENTORIES:

Inventories consisting of equipment parts and materials of \$136,742 and road materials of \$224,301 are valued at the lower of cost or market, determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations used.

PREPAID EXPENSES:

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

CAPITAL ASSETS:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Tuscola County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Tuscola County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets acquired on or before December 31, 2003, as permitted by GASB 34.

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

DEPRECIATION:

Depreciation expense amounted to \$3,644,905 and \$3,202,535 for the years ended December 31, 2006 and 2005. Depreciation is computed using the State Transportation Department Guidelines (Sum-of-the-years-digits) for road equipment and the straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

COMPENSATED ABSENCES (SICK & VACATION BENEFITS):

Under the terms of the 2002 contract between the Tuscola County Division of the Michigan County Road Commission Employee Association, a sickness and accident insurance program funded through a third-party insurance carrier has been established. The program will provide a weekly benefit equal to 70% of the employee's regular weekly earnings for a maximum period of fifty-two weeks. Employees, who, as of August 1, 1990, have accumulated unused sick leave hours earned pursuant to the employer's sick leave plan that existed prior to this agreement, shall have said hours placed into a frozen sick leave bank.

If an employee retires pursuant to the retirement program or dies, the employee or his estate is entitled to payment of fifty percent of his accumulated unused sick leave bank at the rate of pay the employee was earning on December 31, 1989. If an employee is discharged, terminated or quits, he shall not be entitled to payment of any portion of his accumulated sick leave hours.

Hourly employees may accumulate up to 160 hours of paid vacation after which credits are discontinued until the paid vacation accumulation is reduced.

Salaried employees may carry over from year to year a maximum of five unused vacation days.

Accumulated unpaid sick and vacation pay at December 31, 2006, is recorded in the financial statements of the Road Commission as follows:

- A current year expenditure of the Operating Fund if paid out of expendable available financial resources;
- The current and long-term liability is reported on the government-wide financial statements.

ESTIMATES:

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

BUDGETARY PROCEDURES:

Budgetary procedures are established pursuant to Act 621, PA 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or prior to December 31 of each year, a proposed budget is submitted to the County Board of Road Commissioners for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to January 1 the budget is legally enacted through passage of a resolution.
4. Any revisions of the budget must be approved by the County Board of Road Commissioners.
5. Formal budgetary integration is employed as a management control device during the year for the Operating Fund.
6. The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the County Board of Road Commissioners during the year. Individual amendments were not material in relation to the original appropriations that were amended.

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 3 – CASH DEPOSITS AND INVESTMENTS:

Deposits are carried at cost. Deposits of the Road Commission are at banks in the name of the Tuscola County Treasurer. Michigan Compiled Laws, section 129.91, authorizes the County to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard-rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund.

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Road Commission's deposits and investments are in accordance with statutory authority.

The risk disclosures for the Road Commission's deposits and investments, as required by GASB Statement No. 3, are as follows:

	<u>CARRYING AMOUNT</u>		<u>FINANCIAL</u>
<u>DEPOSITS</u>	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>INSTITUTION</u>
Insured	\$100,000	\$ 300,000	\$ 400,000
Uninsured	<u>39,696</u>	<u>792,546</u>	<u>832,242</u>
Total Deposits	<u>\$139,696</u>	<u>\$1,092,546</u>	<u>\$1,232,242</u>

The Road Commission's insured deposits are insured by virtue of the Road Fund meeting certain specified criteria under FDIC regulations and obligations of the United States.

NOTE 4 - ACCOUNTS RECEIVABLE:

Accounts receivable consist of the following:

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Motor vehicle highway funds	\$ 967,078	\$211,757
Due on county road agreements	810,950	479,218
Sundry accounts	<u>6,504</u>	<u>5,455</u>
TOTAL	<u>\$1,784,532</u>	<u>\$696,430</u>

The receivables consist primarily of charges to other agencies for services and materials provided by the Road Commission.

NOTE 5 - DEFERRED EXPENSE - FEDERAL AID - SECONDARY (F.A.S.):

The deferred expense, F.A.S., represents progress payments made by the Road Commission to the State Highway Department on various road projects not completed at December 31, 2006. These amounts will be either refunded or charged to expense as the projects are completed.

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 - CHANGES IN CAPITAL ASSETS:

A summary of changes in the recorded capital assets follows:

COST:

<u>CAPITAL ASSETS ACCOUNTS</u>	<u>BALANCE JANUARY 1, 2006</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE DECEMBER 31, 2006</u>
Land & right of ways	\$ 294,218	\$ -	-	\$ 294,218
Land improvements	23,792,656	1,684,481	-	25,477,137
Buildings	2,245,764	62,419	-	2,308,183
Bridges	18,585,697	866,692	-	19,452,389
Roads	46,704,745	5,515,615	-	52,220,360
Signals & guardrails	288,245	29,161	-	317,406
Equipment - roads	4,760,261	168,573	\$760,910	4,167,924
Equipment - shop	142,530	3,029	-	145,559
Equipment - heating	78,298	-	-	78,298
Equipment - radio	119,442	650	-	120,092
Equipment - office	140,346	-	-	140,346
Equipment - engineer	54,090	2,685	-	56,775
Depletable assets	282,717	-	-	282,717
Weighmaster equipment	6,099	-	-	6,099
TOTAL	<u>\$97,495,109</u>	<u>\$8,333,305</u>	<u>\$760,910</u>	<u>\$105,067,503</u>

ACCUMULATED DEPRECIATION:

<u>CAPITAL ASSETS ACCOUNTS</u>	<u>BALANCE JANUARY 1, 2006</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE DECEMBER 31, 2006</u>
Buildings	\$ 1,161,704	\$ 60,600	-	\$ 1,222,304
Bridges	8,489,263	447,788	-	8,937,051
Roads	22,228,263	2,642,378	-	24,870,641
Signals & guardrails	27,108	20,188	-	47,296
Equipment - roads	3,593,503	445,738	\$749,945	3,289,296
Equipment - shop	132,061	2,565	-	134,626
Equipment - heating	78,298	-	-	78,298
Equipment - radio	106,430	3,812	-	110,242
Equipment - office	118,078	7,940	-	126,018
Equipment - engineers	45,545	2,465	-	48,010
Depletable assets	41,928	1,498	-	43,426
Weighmaster equipment	6,099	-	-	6,099
TOTAL	<u>\$36,028,280</u>	<u>\$3,634,972</u>	<u>\$749,945</u>	<u>\$38,913,307</u>
PLANT & EQUIPMENT EQUITY	<u>\$61,466,829</u>			<u>\$66,154,196</u>

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 7 - ADVANCES - STATE OF MICHIGAN:

The balance of this account consists of the following:

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Non-interest bearing notes for the purchase of equipment to maintain State trunk lines. The loan does not have to be repaid as long as a maintenance contract exists.	\$132,588	\$132,588
Non-interest bearing working capital advances for State trunkline maintenance. There are no repayment provisions.	<u>86,199</u>	<u>85,374</u>
TOTAL	<u>\$218,787</u>	<u>\$217,962</u>

NOTE 8 - LONG-TERM DEBT:

Long-term debt of the Road Commission consisted of and had the following provisions:

\$150,000 installment purchase agreement for 36.2 acres of land in Watertown Township dated January 16, 2004. Annual installments of \$50,000, plus interest at 5.5% begin January 16, 2005.

Annual Requirements to Amortize Long-Term Debt

	<u>December 31, 2006</u>	
<u>Year Ending December 31,</u> 2007	<u>Principal</u>	<u>Interest</u>
	<u>\$50,000</u>	<u>\$2,750</u>
	<u>\$50,000</u>	<u>\$2,750</u>

NOTE 9 - CHANGES IN GENERAL LONG-TERM DEBT:

The general long-term debt of the Road Commission may be summarized as follows:

	<u>BALANCE</u> <u>12-31-05</u>	<u>INCREASE</u> <u>(DECREASE)</u>	<u>BALANCE</u> <u>12-31-06</u>
Installment purchase agreement	\$100,000	(\$50,000)	\$50,000
Compensated absences	<u>15,212</u>	<u>(476)</u>	<u>14,736</u>
Total	<u>\$115,212</u>	<u>\$(50,476)</u>	<u>\$64,736</u>

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - DEFERRED COMPENSATION PLAN:

The Road Commission offers all its employees a deferred compensation plan created in accordance with Internal Revenue Code Sec. 457. The plan, available to salaried employees, permits them to defer a portion of their current salary until the employee's termination, retirement, death, or unforeseeable emergency.

Plan assets shall be held in a trust, annuity contract or custodial accounts for the exclusive benefit of participants and their beneficiaries. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Tuscola County Road Commission's financial statements.

NOTE 11 - DEPLETION EXPENSES:

Depletion expense amounted to \$1,498 and \$1,351 for the years ended December 31, 2006 and 2005. Depletion was computed at a rate of four cents per cubic yard of gravel removed from various county gravel pits.

NOTE 12 - FUND BALANCE - DESIGNATED:

Fund balance is designated in the amount of \$1,092,546 and \$801,099 for the years ended December 31, 2006 and 2005. This represents the amount of bridge/road levy assets on hand at year-end. These assets must be used for the purpose of improvements to primary county roads and local road bridges.

NOTE 13 - OPERATING LEASES:

Commitments under various operating lease agreements for road equipment provide for minimum annual rental payments as follows:

2007	\$299,595
2008	172,020
2009	<u>68,290</u>
TOTAL	<u>\$539,905</u>

There were no contingent rentals or sublease rentals associated with leases in effect at December 31, 2006.

NOTE 14 - PENSION PLANS:

Multiple-employer plan

The Road Commission's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

The Road Commission is required to contribute at an actuarially determined rate. The current rate is 13.71% to 14.40% of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Road Commission.

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 14 - PENSION PLANS, (Continued):

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$97,226 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the entry age normal cost method basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period a December 31, 2005, the date of the latest actuarial valuation, was 30 years.

Single-employer plan

The Road Commission maintains single-employer defined benefit pension plan that is administered by the Massachusetts Mutual Life Insurance Company (Massachusetts Mutual Plan). The plan provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments and other plan changes are provided to members and beneficiaries at the discretion of the Board of County Road Commissioners. The Massachusetts Mutual Plan issues a publicly available financial report that includes financial statements and required supplementary information and that report may be obtained by writing to the Tuscola County Road Commission, 1733 Mertz Road, Caro, MI 48723.

The Road Commission is required to contribute at an actuarially determined rate. The current rate is \$.03 per hour for employees and \$.51 per hour for the employer. The contribution requirements of the Road Commission and plan members are established and may be amended by the Board of County Road Commissioners.

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$14,563 for the Massachusetts Mutual Plan was not equal to the Road Commission's recommended contribution of \$43,253. The required contribution was determined as part of the April 1, 2005, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 5%. The actuarial value of Massachusetts Mutual Plan assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The unfunded actuarial accrued liability at April 1, 2006 is \$417,042.

Three-Year Trend Information

<u>YEAR ENDED</u>	<u>ANNUAL PENSION COST (APC)</u>	<u>PERCENTAGE OF APC CONTRIBUTED</u>	<u>NET PENSION OBLIGATION</u>
A) MERS Plan			
December 31, 2004	\$106,668	100%	NONE
December 31, 2005	108,108	100%	NONE
December 31, 2006	97,226	100%	NONE
B) Mass. Mutual Plan			
March 31, 2004	38,493	41%	\$22,580
March 31, 2005	45,621	32%	30,870
March 31, 2006	43,253	33%	28,690

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 14 - PENSION PLANS, (Continued):

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
C) MERS Plan						
12/31/03	\$1,901,863	\$2,758,692	(\$856,829)	68.9%	\$ 767,401	111.6%
12/31/04	2,105,045	3,068,059	(963,014)	68.6%	788,509	122.1%
12/31/05	2,195,640	3,187,163	(991,523)	68.9%	678,624	146.1%
D) Mass. Mutual Plan						
4/1/04	\$ 141,138	\$ 433,863	(\$303,970)	32.5%	\$2,310,579	13.2%
4/1/05	157,793	464,021	(333,339)	34.0%	2,487,412	13.4%
4/1/06	85,412	502,454	(417,042)	17.0%	2,328,064	17.9%

NOTE 15 – RISK MANAGEMENT:

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The Road Commission has joined together with other Road Commissions to form the Michigan County Road Commission Self-Insurance Pool, a public entity risk pool currently operating as a common risk management and insurance program for liability insurance. The government pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Michigan County Road Commission Self-Insurance Pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for large claims.

The government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Michigan County Road Commission Self-Insurance Pool publishes its own financial report annually, which can be obtained from Michigan County Road Commission Self-Insurance Pool, P. O. Box 14203, Lansing, MI 48901.

NOTE 16 – OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 14, the Road Commission provides post employment health care benefits for life to all employees who retire from the Road Commission with 85 points (years of service plus employee age). After August 15, 2002 employees who retire with the same 85 point system will received health insurance for only 3 years. The expense the Road Commission incurred, which is funded currently, was approximately \$369,449 for the year ending December 31, 2006 and \$344,679 for the year ending December 31, 2005.

The Government Accounting Standards Board has recently released Statement Number 45, *Financial Reporting Post Employment Benefit Plans Other Than Pension Plans*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The new rules will cause government-wide financial statements to recognize the cost of providing health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended December 31, 2008.

REQUIRED SUPPLEMENTAL INFORMATION

TUSCOLA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES AND OTHER FINANCING
SOURCES - BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2006

	GENERAL FUND			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES				
Federal funds:				
Secondary	\$ 5,596,200	\$ 2,264,200	\$ 2,074,286	\$ (189,914)
State Funds:				
State trunkline revenue	1,100,000	1,200,000	1,007,555	(192,445)
Motor vehicle highway funds	5,800,000	5,600,000	5,617,302	17,302
State aid		300,000	322,587	22,587
County raised funds:				
Township contributions	1,900,000	2,500,000	2,513,288	13,288
Property taxes	1,320,000	1,350,000	1,387,569	37,569
Interest earned	30,000	30,000	42,801	12,801
Salvage sales	5,000	10,000	9,396	(604)
Miscellaneous			4,594	4,594
Gain (loss) Equipment Disposal	96,200	71,000	60,105	(10,895)
TOTAL REVENUES	\$ 15,847,400	\$ 13,325,200	\$ 13,039,483	\$ (285,717)

The accompanying notes are an integral part of the financial statements.

TUSCOLA COUNTY ROAD COMMISSION
STATEMENT OF EXPENDITURES AND OTHER FINANCING
USES - BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2006

	GENERAL FUND			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
EXPENDITURES:				
Primary heavy maintenance	\$ 3,927,200	\$ 3,423,000	\$ 3,200,044	\$ 222,956
Primary routine maintenance	1,190,000	1,063,000	872,416	190,584
Local heavy maintenance	4,400,000	3,700,000	4,029,212	(329,212)
Local routine maintenance	2,345,000	2,298,000	2,289,888	8,112
Primary structures heavy maintenance	1,514,000	168,500	144,282	24,218
Primary structures routine maintenance	1,000	1,000	762	238
Local structures heavy maintenance	1,031,000	709,050	722,410	(13,360)
Local structures routine maintenance	1,000	3,000	3,044	(44)
State trunkline maintenance and non-maintenance	1,100,000	1,200,000	1,007,555	192,445
Equipment expense - net			308,464	(308,464)
Administrative expense	510,000	600,000	574,016	25,984
Capital outlay - net	4,000	136,300	(252,660)	388,960
TOTAL EXPENDITURES	\$ 16,023,200	\$ 13,301,850	\$ 12,899,433	\$ 402,417

The accompanying notes are an integral part of the financial statements.

ADDITIONAL INFORMATION

TUSCOLA COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>PRIMARY ROAD FUND</u>	<u>LOCAL ROAD FUND</u>	<u>COUNTY ROAD COMMISSION</u>	<u>TOTALS</u>
Total Revenues	\$ 8,582,748	\$ 3,367,793	\$ 1,088,942	\$ 13,039,483
Total Expenditures	<u>4,226,075</u>	<u>7,613,364</u>	<u>1,059,994</u>	<u>12,899,433</u>
Excess of Revenues Over (Under) Expenditures	<u>4,356,673</u>	<u>(4,245,571)</u>	<u>28,948</u>	<u>140,050</u>
Other Financing Sources (Uses):				
Optional Transfers In		4,245,571		4,245,571
Optional Transfers Out	<u>(4,245,571)</u>	<u></u>	<u></u>	<u>(4,245,571)</u>
Total Other Financing Sources (Uses)	<u>(4,245,571)</u>	<u>4,245,571</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures & Other Uses	111,102	-	28,948	140,050
Fund Balance - January 1, 2006	<u>1,341,727</u>	<u>-</u>	<u>200,219</u>	<u>1,541,946</u>
Fund Balance - December 31, 2006	<u>\$ 1,452,829</u>	<u>\$ -</u>	<u>\$ 229,167</u>	<u>\$ 1,681,996</u>

See the accompanying notes.

TUSCOLA COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>PRIMARY ROAD FUND</u>	<u>LOCAL ROAD FUND</u>	<u>COUNTY ROAD COMMISSION</u>	<u>TOTALS</u>
Property taxes	\$ 883,702	\$ 503,867		\$ 1,387,569
State Aid:				
Michigan Trans. Fund:				
Engineering				-
Urban Road				-
Allocation	5,617,302			5,617,302
Federal Aid:				
Surface Tran. Program				-
D Funds - Federal	2,074,286	322,587		2,396,873
Bridge				-
Other Guardrail				-
Charges for services:				
State trunkline maintenance			\$ 1,007,555	1,007,555
Contributions:				
Township		2,513,288		2,513,288
Other Revenue:				
Miscellaneous			4,594	4,594
Salvage sales			9,396	9,396
Gain (loss) Equip. Disp.			60,105	60,105
Interest earned	7,458	28,051	7,292	42,801
Total Revenue	<u>\$ 8,582,748</u>	<u>\$ 3,367,793</u>	<u>\$ 1,088,942</u>	<u>\$ 13,039,483</u>

See the accompanying notes.

TUSCOLA COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>PRIMARY ROAD FUND</u>	<u>LOCAL ROAD FUND</u>	<u>COUNTY ROAD COMMISSION</u>	<u>TOTALS</u>
Primary road:				
Heavy maintenance	\$ 3,200,044			\$ 3,200,044
Maintenance	872,416			872,416
Local road:				
Heavy maintenance		\$ 4,029,212		4,029,212
Maintenance		2,289,888		2,289,888
Primary road structures:				
Heavy maintenance	144,282			144,282
Maintenance	762			762
Local road structures:				
Heavy maintenance		722,410		722,410
Maintenance		3,044		3,044
State trunkline maintenance			\$ 1,007,555	1,007,555
Equipment expense - net	46,269	209,756	52,439	308,464
Administrative expense - net	214,962	359,054		574,016
Capital outlay - net	<u>(252,660)</u>			<u>(252,660)</u>
TOTAL EXPENDITURES	<u>\$ 4,226,075</u>	<u>\$ 7,613,364</u>	<u>\$ 1,059,994</u>	<u>\$ 12,899,433</u>

April 20, 2007

**INDEPENDENT AUDITORS' REPORT ON
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

Board of Commissioners
Tuscola County Road Commission
Caro, Michigan 48723

We have audited the component unit financial statements of Tuscola County Road Commission, Caro, Michigan, for the year ended December 31, 2006, and have issued our report thereon dated April 20, 2007. These component unit financial statements are the responsibility of the Tuscola County Road Commission, Caro, Michigan, management. Our responsibility is to express an opinion on these component unit financial statements based on our audit. We conducted our audit in accordance with generally accepted United States auditing standards and "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The accompanying schedule of federal financial assistance is presented for purposes of additional analysis and is not a required part of the component unit financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

TUSCOLA COUNTY ROAD COMMISSION
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2006

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	FEDERAL ITEM CODE	PROGRAM AWARD AMOUNT	REVENUE RECOGNIZED	PROGRAM EXPENDITURES
U.S DEPARTMENT OF TRANSPORTATION					
Pass Through Michigan Department of Transportation:					
Highway Research, Planning and Construction	20.205				
Federal Aid Secondary:					
Birch Run Road		77879A	\$ 223,383	\$ 223,383	\$ 223,383
Saginaw Road		87199A	609,874	609,874	609,874
Saginaw Road Bike Path		87189A	524,624	524,624	524,624
Loren Road Bridge		83938A	261,483	261,483	261,483
Hurds Corner Road		54307A	596,588	454,922	454,922
TOTAL DEPARTMENT OF TRANSPORTATION				\$ 2,074,286	\$ 2,074,286

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2006

1. Contracted projects are administered by the Michigan Department of Transportation (MDOT) and will be included in its Single Audit. All of the Road Commission's Federal financial assistance for fiscal year 2004, except Emergency Relief Funds paid through the Federal Highway Administration, was received from contracted projects and, accordingly, the Road Commission had no Federal aid to administer, except as noted above. Consequently, a "Single Audit Report on Compliance with Requirement Applicable to Federal Financial Assistance Program Transactions" is not present.
2. Federal aid revenues recognized are based on Federal, State and Local participation in project contract payments as follows:

<u>PROGRAM TITLE</u>	<u>PERCENTAGES</u>		
	<u>FEDERAL SHARE</u>	<u>STATE SHARE</u>	<u>LOCAL SHARE</u>
Secondary Road (A)	66.00	14.00	20.00
Primary Road (B)	80.00		20.00
Secondary Road (C)	62.00	18.00	20.00
Critical Bridge (D)	80.00	15.00	5.00
Bike Path (E)	80.00		20.00

3. Program expenditures represent the total actual 2006 Federal Financial Assistance Program expenditures eligible for Federal participation.

April 20, 2007

**INDEPENDENT AUDITORS' COMPLIANCE REPORT BASED
ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"**

Board of Commission
Tuscola County Road Commission
Caro, Michigan 48723

We have audited the component unit financial statements of Tuscola County Road Commission, Caro, Michigan, as of and for the year ended December 31, 2006 and have issued our report thereon dated April 20, 2007.

We conducted our audit in accordance with United States generally accepted auditing standards and "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to the Tuscola County Road Commission, Caro, Michigan, is the responsibility of the Tuscola County Road Commission, Caro, Michigan, Management. As part of obtaining reasonable assurance about whether the component unit financial statements are free of material misstatement, we performed tests of the Tuscola County Road Commission's compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, Tuscola County Road Commission, Caro, Michigan, complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Tuscola County Road Commission had not complied, in all material respects, with those provisions.

This report is intended for the information of the Board of Commissioners, management, and cognizant agency and other agencies as identified in the schedule of federal financial assistance. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

April 20, 2007

**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL
CONTROL STRUCTURE IN ACCORDANCE WITH
"GOVERNMENT AUDITING STANDARDS"**

Board of Commissioners
Tuscola County Road Commission
Caro, Michigan 48723

We have audited the component unit financial statements of Tuscola County Road Commission, Caro, Michigan, for the year ended December 31, 2006, and have issued our report thereon dated April 20, 2007.

We conducted our audit in accordance with United States generally accepted auditing standards and "*Government Auditing Standards*", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement.

In planning and performing our audit of the component unit financial statements of Tuscola County Road Commission, Caro, Michigan, for the year ended December 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide assurance on the internal control structure.

The management of the Tuscola County Road Commission, Caro, Michigan, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of component unit financial statements in accordance with generally accepted accounting control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- General Ledger

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Board of Commissioners
April 20, 2007

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the Tuscola County Road Commission in a separate comments and recommendations letter.

This report is intended for the information of the Board of Commissioners, management and the cognizant agency and any other agencies as listed in the schedule of federal financial assistance. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

April 26, 2007

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

To the Board of Commissioners
Tuscola County Road Commission
Caro, Michigan 48723

The following comments relate to situations brought to our attention during the course of our recent examination of the Tuscola County Road Commission financial statements for the year ended December 31, 2006, and are submitted for your evaluation and consideration. We would like to emphasize that since our examination was conducted for the purpose of expressing an opinion on the aforementioned financial statements, these comments are not necessarily all inclusive.

The following recommendation and comment is submitted to you for your consideration. We will cooperate to our fullest ability with the Board and management in implementing this recommendation.

1. Under Funded Pension Plan

The Watkins, Ross & Co Actuarial Valuation Report dated March 31, 2007 indicates the Road Commission's Pension Plan is dramatically under funded. The underfunded actuarial liability is now in excess of \$400,000. In addition, the Road Commission's actual contribution for 2006 was approximately \$28,500 less than what the actuary recommended. In order to meet the 30-year amortization minimum contribution goal, contributions should be increased significantly.

We recommend the Road Commission review their Pension Plans and take the necessary actions to improve the funded status.

2. GASB 45

The Government Accounting Standards Board has recently released Statement Number 45, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended December 31, 2008.

We recommend that the board contact an actuary to determine the amount of the liability that will have to be recorded to comply with this new requirement.

Board of Commissioners
April 26, 2007
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We will review the status of these comments during our next audit engagement. We have already discussed this issue with management, and we will be pleased to discuss it in further detail at your convenience.

This report is intended solely for the information and use of the Tuscola County Road Commission, management and others within the administration and is not intended to be and should not be used by anyone other than these specified parties

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS